# JINHUI SHIPPING

# AND TRANSPORTATION LIMITED

JINHUI

## Fourth Quarter Report for the Quarter Ended 31 December 2014 and Preliminary Annual Results for the Year Ended 31 December 2014

# HIGHLIGHTS

## FOR THE YEAR ENDED 31 DECEMBER 2014

- Revenue for the year declined 39% to US$132 million
- Net loss for the year of US$87 million included non-cash impairment loss on owned vessels of US$51 million
- Basic loss per share: US$1.032
- Gearing ratio as at 31 December 2014: 25%
- EBITDA* : US$ 27 million

*EBITDA is calculated as operating profit (loss) before depreciation and amortization, and excluding non-cash impairment loss on owned vessels

## FOR THE FOURTH QUARTER OF 2014

- Revenue for the quarter declined 47% to US$30 million
- Net loss for the quarter of US$68 million included non-cash impairment loss on owned vessels of US$51 million
- Basic loss per share: US$0.814

The Board of **Jinhui Shipping and Transportation Limited** (the "Company" or "Jinhui Shipping") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the quarter and year ended 31 December 2014.

## FOURTH QUARTER AND ANNUAL RESULTS

Revenue for the fourth quarter of 2014 declined 47% to US$30,154,000, comparing to US$56,374,000 for the last corresponding quarter in 2013. The Company recorded a consolidated net loss of US$68,427,000 for current quarter as compared to a consolidated net loss of US$2,882,000 for the last corresponding quarter in 2013. Basic loss per share was US$0.814 for the fourth quarter of 2014 while basic loss per share was US$0.034 for the last corresponding quarter in 2013.

Revenue for the year 2014 declined 39% to US$132,249,000, comparing to US$217,502,000 for the year 2013. The Company recorded a consolidated net loss of US$86,748,000 for the year 2014 while a consolidated net profit of US$25,399,000 was reported in the year 2013. Basic loss per share for the year was US$1.032 as compared to basic earnings per share of US$0.302 for the year 2013. The considerable consolidated net loss for both the fourth quarter and the year 2014 were primarily attributable to the recognition of impairment loss of US$50,586,000 on certain owned vessels and reduced hire and freight revenue due to low freight rates in weak shipping market.

## DIVIDENDS

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2014. As there is no interim dividend payable during the year, there will be no dividend distribution for the whole year of 2014.

## REVIEW OF OPERATIONS

***Fourth Quarter of 2014.*** Dry bulk shipping market environment continued to be weak despite global economic confidence has been improving in the fourth quarter of 2014. Over the last couple of months, dry bulk commodity market underwent a severe price correction and the fierce commodities price battles provoked a shift in regional seaborne trade routes from Trans-Atlantic to Pacific regions and consequentially reduced the demand for dry bulk ton-miles. Market freight rates were under pressures by these short term turbulences while the oversupply of tonnages continued to hinder the recovery in the dry bulk shipping market.

Revenue for the quarter was US$30,154,000, representing a decrease of 47% as compared to US$56,374,000 for the fourth quarter in 2013. The drop in revenue was mainly due to the large exposure to spot freight market while freight rates kept declining with the unexpected incongruity between demand and supply of tonnages, coupled with the expiration of certain high earning charter contracts in earlier months. The average daily time charter equivalent rates ("TCE") earned by the Group's fleet dropped to US$8,350 for the fourth quarter of 2014 as compared to US$14,092 for the last corresponding quarter in 2013 when certain charter contracts were recently entered into with charterers at relatively low freight rates.

| Average daily TCE | **2014 Q4** | 2013 Q4 | **2014** | 2013 |
|---|---|---|---|---|
| | ***US$*** | *US$* | ***US$*** | *US$* |
| Capesize fleet | **-** | 13,400 | **13,477** | 13,202 |
| Post-Panamax / Panamax fleet | **8,308** | 17,837 | **9,139** | 15,817 |
| Supramax / Handymax / Handysize fleet | **8,355** | 13,680 | **9,235** | 13,424 |
| In average | **8,350** | 14,092 | **9,234** | 13,653 |

The decrease in revenue also attributed to the redelivery of the chartered-in vessel in 2014. The Group had no chartered-in fleet in operation during the quarter as the only chartered-in Capesize was redelivered to its owner in late January 2014 whereas one chartered-in vessel was in operation in the fourth quarter in 2013.

Shipping related expenses dropped from US$33,573,000 for the fourth quarter in 2013 to US$28,045,000 for the current quarter as there was no hire payments in relation to chartered-in fleet incurred in current quarter.

The Group recorded fair value loss of US$2,198,000 on investment portfolio of equity and debt securities for the fourth quarter of 2014, which was included in other operating expenses. For the fourth quarter of 2013, the fair value loss on investment portfolio was US$386,000.

At end of 2014, the Group performed an impairment review on owned vessels and recognized impairment loss of US$50,586,000 on certain owned vessels and the reason of such recognition was explained in later paragraph.

***Year 2014.*** Year 2014 was a challenging year for dry bulk shipping market as the pace of newbuildings delivery outweighed the demand for seaborne transportation due to the unexpected weakening of global minor bulk trading activities. In early 2014, just as the expected recovery in shipping market seemed to be on course with increasing scrapping activities providing relief to the oversupply of tonnages from orders a few years back, the market turned rapidly due to the abrupt slowdown of economic growth of China (the largest importer of dry bulk commodities); a new round of irrational numbers of newbuilding orders encouraged by credit availability and participation of speculative funds; and geopolitical turbulences in different regions also added uncertainty to the already poor market sentiment. The recent crackdown of commodity-backed lending in China further exacerbated negative sentiment given the slowdown of importing activities of China would bring weighty impact on fragile dry bulk shipping market.

Amidst oversupply of tonnage capacity, plummeting freight rates and falling market value of dry bulk vessels, the management cautiously reviewed the fundamentals in dry bulk shipping industry outlook and considered that impairment indication of the Group's fleet existed at end of 2014. The imbalance of supply might continue for some time and oversupply of vessels against a weakening demand in global seaborne trade remains to haunt the dry bulk shipping industry. With due considerations of factors affecting the long term intrinsic values of owned vessels in the impairment review, certain owned vessels' recoverable amounts which were determined based on value in use, were less than their respective carrying amounts. Accordingly, an impairment loss of US$50,586,000 on certain owned vessels was recognized at end of 2014. The impairment loss is non-cash in nature and does not have impact on the operating cash flows of the Group.

Revenue for the year dropped vigorously as the Group faced current market challenges, particularly for some owned vessels were chartered out in short term at relatively low freight rates at spot market. In addition, a chartered-in Capesize was redelivered to its owner in late January 2014. The Group's revenue for the year was US$132,249,000, decreased by 39% as compared to US$217,502,000 for the year 2013. The Group's net loss for the year was US$86,748,000 as compared to a net profit of US$25,399,000 for the year 2013. Basic loss per share for the year was US$1.032 while basic earnings per share of US$0.302 was reported in 2013.

Other operating income for the year 2014 included settlement income of US$6,024,000 from certain charterers in relation to repudiation claims under arbitration awards and early redelivery of an owned vessel prior to expiry of charter contract. The Group will continue to seek all legal means to recover the amounts granted in the arbitration awards.

Shipping related expenses for the year 2014 dropped by 16% to US$107,099,000 as compared to US$127,089,000 for the year 2013. The decrease was mainly due to the reduction in hire payments of approximately US$25.8 million for chartered-in vessels for the year 2014 as compared to the year 2013 as the only chartered-in vessel was redelivered to its owner in late January 2014 that caused savings in hire payments.

The Group entered into agreements in February 2014 to dispose two vessels at a total consideration of US$56,000,000 to a purchaser, an independent third party. As at 31 December 2013, these two vessels were classified as "Assets held for sale" with recoverable amount of US$55,440,000 and impairment loss of US$12,844,000 had been recognized in year 2013. Both vessels were delivered to the purchaser in March 2014 as scheduled and a gain on disposal of assets held for sale of US$560,000 was recorded in other operating income during the year.

The Group recorded fair value loss of US$6,046,000 on investment portfolio of equity and debt securities for the year 2014, which was included in other operating expenses. For the year 2013, the fair value loss on investment portfolio was US$3,723,000.

Finance costs for the year decreased by 21% from US$6,931,000 in 2013 to US$5,441,000 in 2014. The decrease was mainly attributable to the reduction in average outstanding loan principal under aggressive loan repayment schedules and full repayment of vessel mortgage loans for two disposed owned vessels in early 2014.

## FINANCIAL REVIEW

As at 31 December 2014, the total of the Group's equity and debt securities, bank balances and cash decreased to US$202,903,000 (2013: US$209,646,000) and bank borrowings decreased to US$402,498,000 (2013: US$492,936,000). The gearing ratio, as calculated on the basis of net debts (total interest-bearing debts net of equity and debt securities, bank balances and cash) over total equity, dropped to 25% (2013: 32%) as at 31 December 2014. With cash, marketable equity and debt securities in hand as well as available credit facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements. As at 31 December 2014, the total amount of capital expenditure commitments contracted by the Group but not provided for, net of deposits paid, was US$26,190,000 (2013: nil), representing the Group's outstanding capital expenditure commitments to acquire one (2013: nil) newbuilding at contract price of US$29,100,000 (2013: nil). During the year, capital expenditure on additions of owned vessels and vessels under construction was US$11,142,000 (2013: US$5,598,000), on other property, plant and equipment was US$487,000 (2013: US$131,000) and on investment properties was US$5,052,000 (2013: nil).

## UPDATE ON COMMERCIAL DISPUTES

Commercial disputes with Grand China Logistics Holding (Group) Company Limited

Two of Jinhui Shipping's wholly-owned subsidiaries have ongoing commercial disputes with Grand China Logistics Holding (Group) Company Limited ("GCL"), a group company of the HNA Group Company Limited ("HNA Group"). To date, GCL has refused to respect arbitration awards and the spirit of contracts.

In November 2013, these two Jinhui Shipping's wholly-owned subsidiaries were awarded US$11 million and US$18 million under two London Arbitration Awards in respect of two vessels which were chartered to GCL a number of years back, with GCL failing to perform its contractual obligations according to the legally binding contracts.

Permission to appeal one of these awards was subsequently denied by the English Courts in July 2014, and GCL did not challenge the other remaining London Arbitration Award. The vast majority of sums awards under the two final London Arbitration Awards, including interest and costs, remains unpaid despite repeated requests for payment.

Jinhui Shipping has been exercising high degree of patience and tolerance towards this commercial dispute. Unfortunately, Jinhui Shipping has been extremely disappointed with GCL repeatedly failing or extensively delaying to honour its promises to pay under the charters and awards using various reasons and excuses, despite a HNA senior official having vowed that the HNA Group respects the law and will abide by Court decisions when it comes to commercial disputes (reported in Tradewinds in May 2013).

Jinhui Shipping's subsidiaries have attached certain assets of GCL as security from the appropriate European Court in respect of their claims and enforcement action is underway. Jinhui Shipping will continue to exercise its best efforts to cause GCL to fulfil its obligation under the charters and arbitration awards, a financial obligation and legal responsibility which GCL has been evading for a number of years.

*Background of GCL*

GCL is a company incorporated and registered in Shanghai, China and was a shipping company within complex HNA Group. GCL was one of the three pillar industries of HNA Group.

HNA Group is now a leading China based conglomerate with substantial interests in tourism, transportation, financial services, real estate, infrastructure and logistics. Based in Haikou and Beijing, China with Mr. Chen Feng being the HNA Group's legal representative. HNA Group has a diverse range of investments and assets, as well as the enterprises under the controlling or participating shares including Oceanus International Investment AS, Hainan Airlines, Hong Kong Airlines, Hong Kong Express Airways, and Hong Kong Aviation Capital.

According to HNA Group's official website, HNA Group's vision is to create a world-class enterprise and brand, and the group's philosophy is apparently integrity, performance and innovation.

Commercial dispute with Parakou Shipping Pte Limited

Since the collapse of shipping markets in Q4 2008, one of Jinhui Shipping's wholly-owned subsidiaries was involved in a protracted and well publicised dispute with Parakou Shipping Pte Limited ("Parakou") – a Singapore based company which, at the time when a charterparty was consummated into in mid-2008 prior to the collapse of the shipping markets, was controlled by Hong Kong based shipowner Mr. Liu Cheng Chan (also known as Mr. C.C. Liu).

The dispute arose when Parakou refused to take delivery of the relevant Jinhui Shipping's vessel in early 2009. Not long after, a subsidiary of Jinhui Shipping arrested a vessel in the fleet of Hong Kong based Parakou Shipping Limited led by Mr. C.C. Liu in South Africa. The Owner of that vessel and Parakou gave evidence in the South African Court that it had "restructured" in late 2008 by selling all its assets and passing control of the company from Mr. C.C. Liu to his son Mr. Por Liu, as a result of which the arrest was set aside.

Jinhui Shipping's subsidiary obtained substantial London Arbitration Awards in its favour against Parakou – totalling in excess of US$40 million – which remain unpaid. Parakou then went into voluntary liquidation. The liquidators of Parakou have commenced proceedings this year against Mr. C.C. Liu, Mr. Por Liu and other related Parakou's entities for breaches of fiduciary duty and for the recovery of losses caused to Parakou. The Liquidators' application for Mareva injunction was granted by the Court of Singapore on 21 November 2014.The Defendants have sought for a variation of the Court's order and the Court has granted a partial stay of the order. The Liquidators have filed to the Court for dismissal of the Defendants' application and to fully reinstate the Mareva Injunction Order.

Jinhui Shipping will continue to seek all legal means to recover the amount under the London Arbitration Awards and keep our shareholders informed should there be any further developments in due course.

## FLEET

### Owned Vessels

The Group's strategy is to maintain a young and modern fleet to serve the growing needs of our customers. As at 31 December 2014, the Group had thirty six owned vessels as follows:

| | Number of owned vessels |
|---|---|
| Post-Panamax fleet | 2 |
| Panamax fleet | 2 |
| Supramax / Handymax fleet | 31 |
| Handysize fleet | 1 |
| **Total fleet** | **36** |

### Ordered Vessel

On 10 April 2014, the Group entered into a construction and sale contract to acquire a Supramax newbuilding at a contract price of US$29,100,000 with expected date of delivery on or before 31 March 2016.

## RISK FACTORS

This report may contain forward looking statements. These statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including the Company's management's examination of historical operating trends. Although the Company believes that these assumptions were reasonable when made, because assumptions are inherently subject to significant uncertainties which are difficult or impossible to predict and are beyond its control, the Company cannot give assurance that it will achieve or accomplish these expectations, beliefs or targets.

Key risk factors that could cause actual results to differ materially from those discussed in this report will include but not limited to the way world economies, currencies and interest rate environment may evolve going forward, general market conditions including fluctuations in charter rates and vessel values, counterparty risk, changes in demand in the dry bulk market, changes in operating expenses including bunker prices, crewing costs, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents, piracy or political events, and other important factors described from time to time in the reports filed by the Company.

## OUTLOOK

2014 was a challenging year especially in the latter half of the year, catching most if not all owners and operators by surprise. We expect 2015 will be even tougher.

A number of factors will continue to hinder the long-expected dry bulk market recovery: (1) slower demand growth in key dry bulk commodities importing activities from China; (2) a much lower oil price which discourages slow steaming and effectively releasing further supply to the market; (3) excess newbuilding orders driven by irrational expectations of financial return by parties with limited operating experience, backed by access to cheap funding in the capital market, and fee driven intermediary institutions.

We remain positive with the longer term market given the long term import requirement from China and Asian countries are growing. Recent actions in adjusting the monetary policy in China may be an encouraging signal to the market that China intends to further loosen its lending restrictions to support its slowing economic growth which may in turn benefits the dry bulk shipping market. This growth will further strengthen, if the recovery of U.S. and European economies proved to be sustainable. Of course, this would only be possible if supply is in check where minimal or no more irrational ordering of newbuilding would take place. On a positive note, this newbuilding order frenzy has significantly slowed down given this extremely challenging operating environment, the low oil price has proved that the “eco ship” investment story is not so attractive after all for dry bulk vessels, lenders have become highly cautious at this juncture, as well as the U.S. Federal Reserve communicating clearly to the market, an eventual end of the quantitative easing program should be expected soon.

Given the recent and expected uncertainties and volatilities in markets associated with our business, we will continue to refrain from using freight, bunker or interest rate derivatives.

With slowing supply growth, healthy demand growth expectation and increasing scrapping activities, we are cautiously optimistic on the rebalancing of seaborne tonnages in the next couple of years and expect a stronger market going forward and shall aspire to grow our business over the longer term, and will patiently and selectively look at suitable opportunities as they arise.

Looking ahead, we will continue to focus on the basics: maintain a strong financial position, monitor cargo flows in order to deploy our vessels efficiently to optimize revenue, lock in longer term charters to enhance the stability of income at the right time, ensuring the maintenance of a high quality, safe fleet of vessels, and keeping costs in check to enhance our margins. We will continue to operate with a conservative yet nimble mindset, and be ready to act in the best interest of our shareholders under different kinds of scenarios.

## PUBLICATION OF FINANCIAL INFORMATION

This report is available on the website of the Company at www.jinhuiship.com and the NewsWeb of the Oslo Stock Exchange at www.newsweb.no.

By Order of the Board

**Ng Siu Fai**
*Chairman*

27 February 2015

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (PRELIMINARY)

| | Note | **3 months ended 31/12/2014 (Unaudited) US$'000** | 3 months ended 31/12/2013 (Unaudited) US$'000 | **Year ended 31/12/2014 (Unaudited) US$'000** | Year ended 31/12/2013 (Audited) US$'000 |
|---|---|---|---|---|---|
| **Revenue** | 2 | **30,154** | 56,374 | **132,249** | 217,502 |
| Other operating income | | **3,605** | 12,627 | **21,091** | 34,355 |
| Interest income | | **1,237** | 1,321 | **5,599** | 3,913 |
| Shipping related expenses | | **(28,045)** | (33,573) | **(107,099)** | (127,089) |
| Staff costs | | **(4,374)** | (6,045) | **(11,138)** | (11,613) |
| Impairment loss on owned vessels | 4 | **(50,586)** | - | **(50,586)** | - |
| Impairment loss on assets held for sale | | **-** | (12,844) | **-** | (12,844) |
| Other operating expenses | | **(4,720)** | (4,294) | **(14,058)** | (12,482) |
| **Operating profit (loss) before depreciation and amortization** | | **(52,729)** | 13,566 | **(23,942)** | 91,742 |
| Depreciation and amortization | | **(14,416)** | (14,826) | **(57,365)** | (59,412) |
| **Operating profit (loss)** | | **(67,145)** | (1,260) | **(81,307)** | 32,330 |
| Finance costs | | **(1,282)** | (1,622) | **(5,441)** | (6,931) |
| **Profit (Loss) before taxation** | | **(68,427)** | (2,882) | **(86,748)** | 25,399 |
| Taxation | 6 | **-** | - | **-** | - |
| **Net profit (loss) and total comprehensive income (loss) for the period / year attributable to shareholders of the Company** | | **(68,427)** | (2,882) | **(86,748)** | 25,399 |
| **Earnings (Loss) per share** | 7 | | | | |
| - Basic and diluted | | **US$(0.814)** | US$(0.034) | **US$(1.032)** | US$0.302 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (PRELIMINARY)

| | Note | 31/12/2014<br>(Unaudited)<br>*US$'000* | 31/12/2013<br>(Audited)<br>*US$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **967,941** | 1,064,266 |
| Investment properties | *9* | **8,546** | 3,513 |
| Available-for-sale financial assets | *10* | **373** | 373 |
| | | **976,860** | 1,068,152 |
| **Current assets** | | | |
| Inventories | | **2,452** | 4,509 |
| Trade and other receivables | | **20,879** | 50,935 |
| Financial assets at fair value through profit or loss | *11* | **132,339** | 130,975 |
| Pledged deposits | | **22,617** | 23,577 |
| Bank balances and cash | *12* | **70,564** | 78,671 |
| | | **248,851** | 288,667 |
| Assets held for sale | *13* | **-** | 55,440 |
| | | **248,851** | 344,107 |
| **Total assets** | | **1,225,711** | 1,412,259 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Issued capital | | **4,202** | 4,202 |
| Reserves | | **787,948** | 874,696 |
| **Total equity** | | **792,150** | 878,898 |
| **Non-current liabilities** | | | |
| Secured bank loans | | **338,638** | 402,498 |
| **Current liabilities** | | | |
| Trade and other payables | | **30,961** | 40,367 |
| Amount due to holding company | | **102** | 58 |
| Secured bank loans | | **63,860** | 90,438 |
| | | **94,923** | 130,863 |
| **Total equity and liabilities** | | **1,225,711** | 1,412,259 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PRELIMINARY)

| | Issued capital | Share premium | Capital redemption reserve | Contributed surplus | Employee share-based compensation reserve | Reserve for available-for-sale financial assets | Retained profits | Total equity |
|---|---|---|---|---|---|---|---|---|
| | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) | (Audited) |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2013 | 4,202 | 72,087 | 719 | 16,297 | 4,758 | 48 | 755,388 | 853,499 |
| Net profit and total comprehensive income for the year | - | - | - | - | - | - | 25,399 | 25,399 |
| At 31 December 2013 | 4,202 | 72,087 | 719 | 16,297 | 4,758 | 48 | 780,787 | 878,898 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2014 | 4,202 | 72,087 | 719 | 16,297 | 4,758 | 48 | 780,787 | 878,898 |
| Net loss and total comprehensive loss for the year | - | - | - | - | - | - | (86,748) | (86,748) |
| **At 31 December 2014** | **4,202** | **72,087** | **719** | **16,297** | **4,758** | **48** | **694,039** | **792,150** |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (PRELIMINARY)

| | Note | **Year ended 31/12/2014 (Unaudited)** | Year ended 31/12/2013 (Audited) |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| **OPERATING ACTIVITIES** | | | |
| Cash generated from operations | | **40,239** | 32,997 |
| Interest paid | | **(5,553)** | (7,048) |
| **Net cash from operating activities** | | **34,686** | 25,949 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **5,454** | 3,358 |
| Decrease (Increase) in bank deposits with more than three months to maturity when placed | | **(14,408)** | 15,083 |
| Dividend income received | | **1,912** | 1,082 |
| Purchase of property, plant and equipment | | **(11,629)** | (5,729) |
| Purchase of investment properties | | **(5,052)** | - |
| Proceeds from disposal of assets held for sale | | **56,000** | - |
| Proceeds from disposal of property, plant and equipment | | **-** | 38 |
| Proceeds from termination of unlisted investments | | **-** | 474 |
| Purchase of available-for-sale financial assets | | **-** | (170) |
| **Net cash from investing activities** | | **32,277** | 14,136 |
| **FINANCING ACTIVITIES** | | | |
| New secured bank loans | | **4,144** | 2,620 |
| Repayment of secured bank loans | | **(94,582)** | (71,920) |
| Decrease (Increase) in pledged deposits | | **960** | (3,801) |
| **Net cash used in financing activities** | | **(89,478)** | (73,101) |
| **Net decrease in cash and cash equivalents** | | **(22,515)** | (33,016) |
| **Cash and cash equivalents at 1 January** | | **78,671** | 111,687 |
| **Cash and cash equivalents at 31 December** | *12* | **56,156** | 78,671 |

## NOTES (PRELIMINARY):

### 1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and have not been reviewed by our auditor, Grant Thornton Hong Kong Limited. The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2013.

### 2. Revenue

The Group is principally engaged in the businesses of ship chartering and ship owning which are carried out internationally. Revenue represents chartering freight and hire income arising from the Group’s owned and chartered-in vessels. Revenue recognized during the periods / years are as follows:

| | **3 months ended 31/12/2014** | 3 months ended 31/12/2013 | **Year ended 31/12/2014** | Year ended 31/12/2013 |
|---|---|---|---|---|
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| | ***US$’000*** | *US$’000* | ***US$’000*** | *US$’000* |
| Chartering freight and hire income | | | | |
| Hire income under time charters | **24,655** | 44,142 | **97,693** | 178,147 |
| Freight income under voyage charters | **5,499** | 12,232 | **34,556** | 39,355 |
| | **30,154** | 56,374 | **132,249** | 217,502 |

### 3. Other operating income

Other operating income for the year 2014 mainly included ballast bonus income received from particular charterers for certain charter contracts, gain on disposal of assets held for sale of US$560,000, and settlement income of US$6,024,000 from certain charterers in relation to repudiation claims under arbitration awards and early redelivery of an owned vessel prior to expiry of charter contract.

For the year 2013, other operating income included an income of US$8,733,000 relating to the elimination of impairment loss, previously recognized on a vessel under construction, upon termination of a newbuilding contract, and settlement income of US$5,416,000 from certain claims, including the partial settlement of claim for damages and losses against Korea Line Corporation (“KLC”) by receiving cash and shares of KLC. These shares had been accounted for as financial assets at fair value through profit or loss as at 31 December 2013.

**4. Impairment loss on owned vessels**

Amidst oversupply of tonnage capacity, plummeting freight rates and falling market value of dry bulk vessels, the management cautiously reviewed the fundamentals in dry bulk shipping industry outlook and considered that impairment indication of the Group's fleet existed at end of 2014. The imbalance of supply might continue for some time and oversupply of vessels against a weakening demand in global seaborne trade remains to haunt the dry bulk shipping industry. With due considerations of factors affecting the long term intrinsic values of owned vessels in the impairment review, certain owned vessels' recoverable amounts which were determined based on value in use, were less than their respective carrying amounts. Accordingly, an impairment loss of US$50,586,000 on certain owned vessels was recognized at end of 2014. There was no such loss recognized in year 2013.

**5. Operating profit (loss) before depreciation and amortization**

This is stated after charging / (crediting):

| | **3 months ended 31/12/2014** | 3 months ended 31/12/2013 | **Year ended 31/12/2014** | Year ended 31/12/2013 |
|---|---|---|---|---|
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Impairment loss (Reversal of impairment loss) on trade receivables | **(392)** | (182) | **(644)** | 519 |
| Dividend income | **(551)** | (291) | **(2,053)** | (1,143) |
| Net loss (gain) on financial assets at fair value through profit or loss | **2,294** | (788) | **5,923** | (3,230) |

**6. Taxation**

Taxation has not been provided as the Group has no assessable profit for all relevant periods / years.

**7. Earnings (Loss) per share**

Basic and diluted loss per share for the quarter and year ended 31 December 2014 were calculated on the respective net loss of US$68,427,000 for the quarter and US$86,748,000 for the year and the weighted average number of 84,045,341 ordinary shares in issue during the quarter / year.

Basic and diluted loss per share for the quarter ended 31 December 2013 were calculated on the net loss of US$2,882,000 for the quarter and the weighted average number of 84,045,341 ordinary shares in issue during the quarter.

Basic and diluted earnings per share for the year ended 31 December 2013 were calculated on the net profit of US$25,399,000 for the year 2013 and the weighted average number of 84,045,341 ordinary shares in issue during the year.

## 8. Dividend

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2014 (2013: nil).

## 9. Investment properties

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* |
| At 1 January | **3,513** | 3,333 |
| Additions | **5,052** | - |
| Change in fair value | **(19)** | 180 |
| At 31 December | **8,546** | 3,513 |

The Group's investment properties comprised of premises and car parks held under operating leases to earn rentals or held for capital appreciation, or both. These premises and car parks are held under long term leases and located in Hong Kong.

At the reporting date, the fair value of the Group's investment properties were determined by Centaline Surveyors Limited, an independent qualified professional valuer, on direct comparison approach on annually basis with reference to comparable transactions available in the relevant locality. In estimating the fair value of investment properties, the highest and best use of the properties is their current use. The fair value measurement of these investment properties was categorized as Level 3 of the three-level fair value hierarchy as defined under IFRS 13 and HKFRS 13 and there was no transfer among the three levels of the fair value hierarchy during the year.

## 10. Available-for-sale financial assets

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* |
| Unlisted club membership, at fair value | **203** | 203 |
| Unlisted club membership, at cost | **170** | 170 |
| | **373** | 373 |

Unlisted club membership stated at fair value represented investment in club membership which its fair value can be determined directly by reference to published price quotation in active market. At the reporting date, the fair value measurement of this unlisted club membership was categorized as Level 1 of the three-level fair value hierarchy as defined under IFRS 13 and HKFRS 13 and there was no transfer among the three levels of the fair value hierarchy during the year.

For the unlisted club membership stated at cost, as there is no quoted market price in active market, the range of reasonable fair value estimates can be varied significantly that its fair value cannot be measured reliably.

## 11. Financial assets at fair value through profit or loss

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* |
| *Held for trading or not qualifying as hedges* | | |
| Listed equity securities | **56,408** | 55,426 |
| Listed debt securities | **75,931** | 75,549 |
| | **132,339** | 130,975 |

At the reporting date, the fair value measurements of listed equity securities and listed debt securities were determined by reference to their quoted bid prices in active markets and were categorized as Level 1 of the three-level fair value hierarchy as defined under IFRS 13 and HKFRS 13. There was no transfer among the three levels of the fair value hierarchy during the year.

## 12. Bank balances and cash

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | **56,156** | 78,671 |
| Bank deposits with more than three months to maturity when placed | **14,408** | - |
| | **70,564** | 78,671 |

## 13. Assets held for sale

By end of 2013, the Group has intention to sell two of its owned vessels which were ready for sale and had been actively marketed at prices that are reasonable in relation to their current fair values. As at 31 December 2013, these two vessels were reclassified to "Assets held for sale" under "Current assets" with recoverable amount of US$55,440,000, which were measured at the lower of the net book value of US$68,284,000 or estimated fair value less costs to sell of US$55,440,000. As a result, impairment loss of US$12,844,000 for these two vessels was recognized for the year 2013.

The fair value less costs to sell of these two owned vessels were estimated using observed prices for recent sales of similar vessels and were categorized as Level 2 of the three-level fair value hierarchy as defined under IFRS 13 and HKFRS 13.

In February 2014, the Group entered into agreements to dispose these two vessels at a total consideration of US$56,000,000 to a purchaser, an independent third party. Both vessels were delivered to the purchaser in March 2014 as scheduled and a gain on disposal of assets held for sale of US$560,000 was recorded in other operating income during the year.

**14. Capital expenditures and commitments**

During the year, capital expenditure on additions of owned vessels and vessels under construction was US$11,142,000 (2013: US$5,598,000), on other property, plant and equipment was US$487,000 (2013: US$131,000) and on investment properties was US$5,052,000 (2013: nil).

As at 31 December 2014, the total amount of capital expenditure commitments contracted by the Group but not provided for, net of deposits paid, was US$26,190,000 (2013: nil), representing the Group's outstanding capital expenditure commitments to acquire one (2013: nil) newbuilding at contract price of US$29,100,000 (2013: nil).

**15. Related party transactions**

During the periods / years, the Group had related party transactions in relation to compensation of key management personnel as follows:

| | **3 months ended 31/12/2014** | 3 months ended 31/12/2013 | **Year ended 31/12/2014** | Year ended 31/12/2013 |
|---|---|---|---|---|
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Audited) |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Salaries and other benefits | **3,676** | 5,202 | **7,111** | 7,482 |
| Contributions to retirement benefits schemes | **63** | 41 | **254** | 163 |
| | **3,739** | 5,243 | **7,365** | 7,645 |

**16. Comparative figures**

Certain comparative figures have been included in order to conform to the presentation of current period / year.

**Jinhui Shipping and Transportation Limited**

JINHUI

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